

China Tianyi Holdings Ltd (756.HK)

Stable profit growth with the strong profitability



Phillip Securities (Hong Kong) Ltd

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Phillip Securities Research

756.HK | 756.HK | 756.HK

Industry: Consumption

2014-5-7

The profits increased stably in 1H2013/2014 better than the expectation

Rating: Buy CP: HK\$1.10 TP: HK\$1.45

Company Introduction

China Tianyi (or "the Group") is the first domestic agricultural products manufacturer and grower listed in H Shares, which is principally engaged in processing and selling of frozen concentrated orange juice ("FCOJ") and the related products. The Group becomes the leader in the market with 19 years of experience in the concentrated juice processing industry, and has established as well as invested in production plants in the three major citrus growing areas of Chongqing, Hunan and Fujian. It has also set up its own orange cultivation bases of tens of thousands Mu in aggregate. The Group has been supplying raw material to large beverage products manufacturers, including Coca-Cola in China, Japan-based Suntory and Wahaha in recent years, and also exports its products to the UK and the Asian region.

Summary

- China Tianyi is the largest products manufacturer who is principally engaged in processing and selling of FCOJ in China. By the end of Dec 2013, the Group's revenue increased by 18.4% y-y to RMB 279 million. Net profit amounted to RMB69.028 million with the year-on-year growth rate of 12.6%, equivalent to the EPS of RMB0.06; better than our previous expectation;
- China Tianyi owns quite strong anti-risk ability from upstream production to downstream sales benefited from the unique integration business model, and therefore gains the strong profitability. In 1H2013/2014 (Dec 2013), its gross margin and net margin still maintained quite high level as 32.70% and 25.00% respectively;
- China Tianyi still owns quite rich cash flow to ensure there are enough liquid assets to meet the matured liabilities in future, but total cash flow decreased compared with the previous year. Additionally, the Group's capital expenditure increased sharply, and the bank loans raised significantly, which caused the debt ratio went up obviously, representing the deterioration of the financial condition. As at the end of 2013, the Group's cash and cash equivalents recorded to RMB424 million. Current ratio increased from 3.7x in the fiscal year of 2013(Jun 2013) to 4.1x, but D/E ratio grew from 27.9% to 42.71%;
- Considering the Group's quite strong profitability, and the increase of the orange selling price under the improvement of the market in future, we believe the Group's sales will go up stably. However, it is worth noting that China Tianyi's net profit margin only recorded 13% approximately in the fiscal year of 2013(Jun 2013), huge difference compared with that in Dec 2013, which was mainly because of the adjustment

Rating	1.00	Buy
- Previous Rating	0.00	Not Rated
Target Price (HKD)	1.45	
- Previous Target Price (HKD)	1.30	
Closing Price (HKD)	1.10	
Expected Capital Gains (%)	31.8%	
Expected Dividend Yield (%)	3.5%	
Expected Total Return (%)	35.3%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	1.470	
Enterprise Value (HKD mn)	N/A	
Closing Price in 52 week range	0.91-1.59	

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Revenue (RMB 000)	650,999	525,774	573,094	613,210
Net Profit, adj. (RMB 000)	250,262	67,074	74,892	84,795
EPS, adj. (RMB)	0.21	0.06	0.05	0.06
P/E (X)	4.3	15.9	16.1	14.2
BVPS (RMB)	1.06	1.12	1.20	1.26
P/B (X)	0.8	0.8	0.7	0.7
DPS (RMB)	0.00	4.00	2.70	3.11
Div. Yield	0.0%	4.5%	3.1%	3.5%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

PE, PB

Research Analyst

Xingyu Chen

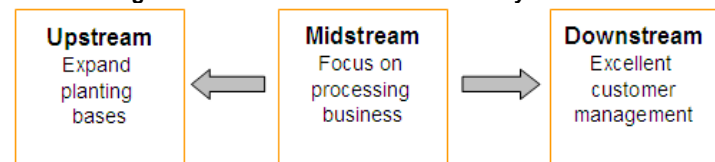
chenxingyu@phillip.com.cn

+86 21 5169 9400 – 105

of income tax. We believe such adjustment will have a large impact for the net profit, and it is unstable for the profit estimation. However, even based on the conservative view, including the impact of adding income tax, we expect China Tianyi's net margin will maintain increase slowly with the level of 14% approximately in the next two years, and the net profit may achieve to RMB85 million in 2015;

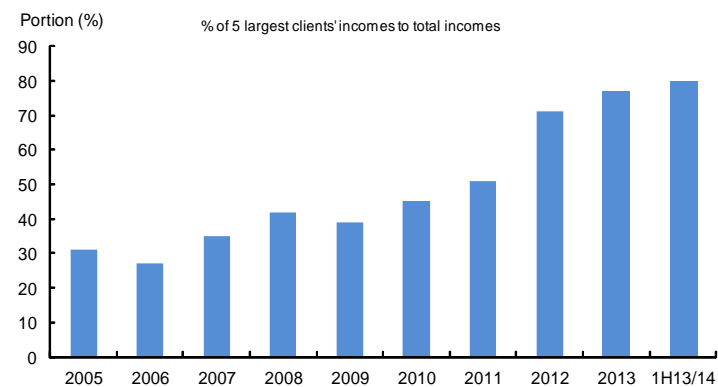
- Based on the bright market prospect, and the Group's leading position in the industry with the moderate operating strategy, we have quite strong confidence in China Tianyi's profit growth in future, increase the 12-month target price to HK\$1.45, around 32% higher than the latest closing price, equivalent to 29.1xP/E and 1.4xP/B 2015E respectively, and recommend Buy.

Table 1. Integration business model of China Tianyi



Source: PSR, Company report

Figure 1. The portion of main clients' revenue to total revenue of China Tianyi by the end of 1H2013/2014 (Dec 2013)



Source: PSR, Company report

Figure 2. Future price of FCOJ (as at the end of 2nd May 2014)



Source: finviz.com

Table 2. Sales of China Tianyi's products in 1H2013/2014 interim results

RMB '000	Dec-13	Dec-12	Growth rate y-y	Portion (2013)	Portion (2012)	Changes (ppts)
FCOJ	129,495	95,739	35.26%	46.36%	40.60%	5.76
Orange juice pulp	30,519	38,953	-21.65%	10.93%	16.52%	-5.59
orange fibre	0	15,877		0.00%	6.73%	-6.73
Others	17,895	1,392	1185.56%	6.41%	0.59%	5.82
Fresh oranges	101,404	83,856	20.93%	36.30%	35.56%	0.75
Total revenue	279,313	235,817	18.44%	100.00%	100.00%	

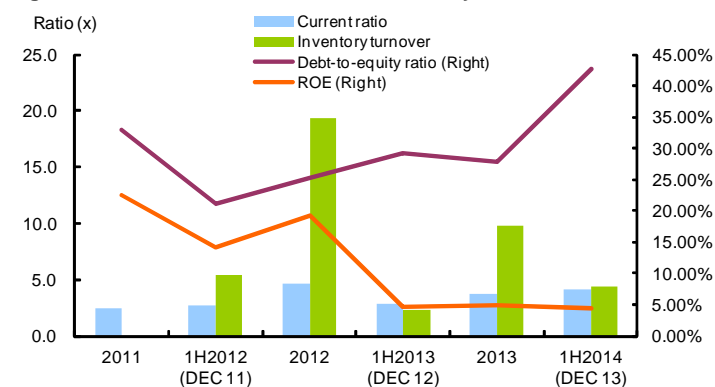
Source: PSR, Company report

Table 3. China Tianyi's sales forecasts

Output of orange from own orange plantations	2011	1H2012 (DEC 11)	2012	1H2013 (DEC 12)	2013	1H2014 (DEC 13)	2014E	2015E
Fresh orange for sale	65,000	69,004	69,000	81,170	81,170	63,127	69,440	79,866
Oranges for processing	63,000	44,473	44,000	61,715	61,715	38,745	46,494	55,793
Sub-total (Tons)	128,000	113,477	113,000	142,885	142,885	101,872	115,934	135,648
Quantity of sales of fresh orange (Tons)	67,237	42,025	77,345	46,387	85,455	56,336	67,603	84,503
% of sub-total of output from own orange plantations	52.53%	37.03%	68.45%	32.60%	59.81%	55.30%	58.31%	62.30%
Selling price of fresh orange (RMB '000)	2,200	2,231	1,800	1,800	1,700	1,800	1,900	2,000
Sales of fresh orange	147,921	93,758	139,221	83,857	145,273	101,404	128,445	169,007
The Group's total revenue	455,185	320,340	650,999	235,817	525,774	279,313	573,094	613,210
% of the Group's total revenue	32%	29%	21%	36%	28%	36%	22%	28%

Source: PSR, Company report

Figure 3. Some financial ratios of China Tianyi



Source: PSR, Bloomberg

Financial Status

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	6.0	4.3	15.9	16.1	14.2
P/B (X)	1.3	0.8	0.8	0.7	0.7
Dividend Payout ratio	0.00%	0.00%	57.89%	39.62%	40.24%
Dividend Yield	0.00%	0.00%	4.53%	3.06%	3.52%
Per share data (RMB)					
EPS, reported	0.15	0.21	0.06	0.05	0.06
EPS, adj.	0.15	0.21	0.06	0.05	0.05
DPS (HK\$ Cents)	0.00	0.00	4.00	2.70	3.11
BVPS	0.66	1.06	1.12	1.20	1.26
Growth					
Revenue		43.0%	-19.2%	9.0%	7.0%
Gross profit		75.5%	-20.1%	7.3%	8.7%
Operating profit		49.4%	-48.1%	6.3%	8.4%
Net Income		62.8%	-73.2%	11.7%	13.2%
Key Ratios					
Operating margin	40.71%	42.53%	27.33%	26.64%	26.99%
Core operating margin	14.15%	26.00%	22.97%	25.35%	26.28%
Net margin	33.78%	38.44%	12.76%	13.07%	13.83%
Current ratio (x)	2.5	4.7	3.7	3.4	3.0
Quick ratio (x)	2.4	4.5	3.5	3.3	2.9
Cash ratio (x)	2.0	3.0	2.0	1.7	1.5
Inventory turnover (x)		19.3	9.8	11.9	14.4
Days of sales outstanding (Days)		19	37	31	25
Receivable turnover (x)		7.9	4.9	5.1	4.4
Average receivable collection period (Days)		46	75	72	84
Payable turnover (x)		27.5	19.1	18.4	15.6
Number of days of payables (Days)		13	19	20	23
The process of production (Days)		52	93	83	85
Financial leverage ratio (x)	1.4	1.3	1.4	1.6	1.6
Debt-to-equity ratio	33.04%	25.28%	27.90%	49.01%	49.26%
Total assets turnover	41.74%	38.50%	28.12%	24.64%	24.96%
ROA	14.10%	14.80%	3.59%	3.22%	3.45%
ROE	22.51%	19.34%	4.95%	4.56%	4.93%
Income Statement (RMB 000)					
Revenue	455,185	650,999	525,774	573,094	613,210
COGS	(313,908)	(403,059)	(327,742)	(360,516)	(382,147)
Gross Profit	141,277	247,940	198,032	212,577	231,063
Gain from changes in fair value of biological asset	113,142	108,511	30,455	30,150	31,658
Other revenue	8,467	10,776	9,700	10,088	12,106
Distribution costs	(24,288)	(10,565)	(7,917)	(4,909)	(5,056)
Administrative expenses	(52,591)	(68,096)	(69,322)	(62,390)	(64,885)
Other expenses	(688)	(11,727)	(17,274)	(32,821)	(39,385)
Profit from operations	185,319	276,839	143,674	152,697	165,501
Net finance incomes (costs)	(19,576)	(26,716)	(43,935)	(44,814)	(47,054)
Profit before tax	165,743	250,123	99,739	107,883	118,446
Income tax credit (expense)	(11,975)	139	(32,665)	(32,992)	(33,651)
Income tax rate	7.23%	N/A	32.75%	30.58%	28.41%
Profit for the year	153,768	250,262	67,074	74,892	84,795
Profit for the period attributable to owners of the C	153,768	250,262	67,074	74,892	84,795
Minority interest	0	0	0	0	0
Balance Sheet (RMB 000)					
Property, plant and equipment	158,897	235,088	244,949	254,747	267,484
Land use rights	11,030	18,384	17,969	20,664	21,078
Lease prepayments for orange plantations	123,657	343,094	537,912	699,286	804,178
Goodwill	0	56,696	56,696	56,696	56,696
Non-current assets	413,934	894,060	969,570	1,315,678	1,436,007
Inventories	7,925	33,892	32,806	27,885	25,097
Cash and cash equivalents	555,996	513,199	488,913	498,691	523,626
Current assets	676,503	796,631	900,060	1,010,422	1,020,601
Total assets	1,090,437	1,690,691	1,869,630	2,326,099	2,456,608
Trade payables	18,475	7,947	5,909	11,227	13,473
Secured bank loans	114,190	141,190	185,690	222,828	256,252
Current liabilities	274,291	170,132	245,522	295,419	345,200
Net current assets	402,212	626,499	654,538	715,003	675,401
Non-current liabilities	26,410	233,343	243,970	550,494	560,542
Total liabilities	300,701	403,475	489,492	845,913	905,742
Net assets	789,736	1,287,216	1,380,138	1,480,186	1,550,866
Share capital	8,971	10,501	10,682	10,690	10,690
Reserves	780,765	1,276,715	1,369,456	1,469,496	1,540,176
Equity attributable to owners of the Company	789,736	1,287,216	1,380,138	1,480,186	1,550,866
Minority interest	0	0	0	0	0
Total equity	789,736	1,287,216	1,380,138	1,480,186	1,550,866

Source: PSR

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005